

# Canadian Pork Market Report



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Market Analysis and Consulting Inc.

Make Informed Decisions

May 1, 2023

## The Markets at a Glance

		Last Yr	22-Apr-23	29-Apr-23	last wk % chg Year
<b>CME Lean Hog Index</b>	(U.S. \$/cwt)	102	71	71	-30%
<b>Nearby Futures</b>	(U.S. \$/cwt)	101	77	80	-21%
<b>Third Month Hog Futures</b>	(U.S. \$/cwt)	110	89	94	-15%
<b>Cdn Slaughter week F.I &amp; P.I.</b>	(000)	431	435	428	-1%
<b>Cdn Slaughter latest 52 week</b>	(000)	21,608	21,589	21,585	-0.1%
<b>US Slaughter week F.I.</b>	(000)	2,367	2,454	2,387	1%
<b>US Slaughter latest 52 week</b>	(000)	125,721	125,315	125,335	-0.3%

## Canadian Market Developments

### Quebec, Again

On April 18 I emailed subscribers an English translation of the new Quebec hog marketing agreement or convention, as circulated by the Les Éleveurs de porcs du Québec. The new convention pricing went into effect last week.

### Summary Points

The following are some of the summary points of the agreement.

- The base price, set during the first year of the marketing agreement, will be 85% of the reconstituted value of a pig carcass (U.S. cutout) and will transition to 88% at the beginning of the third year.
- This compares to the previous formula, which set a price within a window of 90 to 100% of the U.S. cutout.
- The formula provides for a price supplement based on the profits of the Fresh Hogs East segment generated by Olymel. Other buyers will pay an additional price equal to that paid by Olymel.
- The packers and producers have agreed to various agreements to ensure the sale of Quebec hogs while waiting for the various mechanisms that the producers have adopted to reduce hog production to come into effect.
- One such agreement is extending the timeline on the closure of the Vallee Jonction plant. Olymel will maintain the slaughter of 624,000 hogs for approximately one year out of the total of 1.1 million animals that it planned to stop harvesting.
- This maintenance of part of the production by the processor will, however, cost \$20 per pig for hog farmers.

- To minimize the effects of this production reduction for Quebec producers, Olymel will stop buying hogs from Ontario.
- Niche market production is exempt.

### Reduction Plan

The marketing agreement is closely tied to the previously announced plan by Les Éleveurs to decrease Quebec production (see this report, April 3). Quebec hog producers voted in favor of the establishment of a buy-back program for producers who wish to withdraw from production for at least five years. With an \$80 million compensation fund, it will aim to reduce the number of feeder pigs raised in the province by 1 million. Producers voted in favor of a special contribution to finance this mechanism for the voluntary withdrawal of production. For those who choose to stay, this contribution will average \$2.85 for each hog sold. It is expected that this fee will be required for approximately five years.

A significant portion of the \$80 million fund is likely to be paid for by taxpayers. Producers will be able to include the amount of the special levy in their “marketing” costs. If producers receive an annual income that is greater than their production costs, they will have to bear the full cost of the special contribution. On the other hand, if the income that producers receive is below their production costs, the Farm Income Stabilization Insurance Program (ASRA) will be triggered for that year.

This plan still must be approved by the regulatory supervisory body, the Régie des marchés agricoles et alimentaires du Québec. There appears to be a sense of urgency to get the wheels turning on the reduction strategy. With that noted, it also appears that producers are feeling-out the process and are reluctant to bite.

Note that one million pigs is roughly the number of market hogs that Canada sent to the U.S. in 2022. As of the end of April this year, Canada is on pace to move 1.2 million south in 2023.

Depending on your assumptions, at ,2000 spaces, 1 million pigs would require about 200 finishing barns and 100 nursery barns to raise them.

### No More Weaners Either

Regarding the end of the Ontario hogs in Quebec, note that this agreement does not include the niche market hogs. As such those that supply Breton with specialty hogs may not be impacted. That might amount to about 3,000 a week. As of now there are about 10-14,000 market hogs a week moving from Ontario to Quebec. That is less than half the normal rate prior to 2020. By post Labor Day, not counting the Breton hogs, that number will be little or none.

There are also about 1,000-2,000 market hogs going from New Brunswick and PEI into Quebec each week. That is a similar volume to what was flowing prior to all the Quebec disruptions.



Finally, it is also of interest that the ban on out of province hogs also includes weaners. That means that Ontario and Maritime weaner suppliers are also impacted by these new plans.

## Canadian Pork Products

*Luis Londono, Ronald A. Chisholm Ltd., Toronto.*

An improvement in buyer interest out of Asia and Latin America did some good to carcass values. The US/CAD markets continue to have the cheapest pigs in the world; at some point demand should respond. For how much longer do we need to be swimming in pork?! Overall, I continue to believe pork prices are overdone to the downside and the large spreads between the US and EU will soon enough narrow. Will the US/CAD prices move higher, or will the EU move lower?! It felt as if the tide changed last week in terms of supply/demand. The chased became the chaser as buyers from export markets (Asia) started to become active once again. I expect North and South American buyers to follow suit as an assortment of cuts have now tested lows, found resistance, and are now being shown higher out front: a sure way to bring buyers back onto the dancefloor.

### Processed Cuts

Pork processor cuts continued to drag carcass lower; however, the pain was minimal on the ham and belly primal compared to previous weeks. A sign of the bottom for these two primals? Feels like it. Bellies remain incredibly cheap; however, they are not moving lower. Export interest for them at current levels has been very good; I would say they are poised to make a long-awaited run! Hams have also shown signs of strength. Hams are not in season; therefore, this type of pricing behavior is not atypical. Trims continued to face headwinds; levels on 42s and 72s are testing their yearly lows in a counter seasonal manner - good time to lock some trimmings down as I am not sure it gets better than this. There is a risk for boneless picnics to continue sliding; particularly if 72 values don't improve shortly.

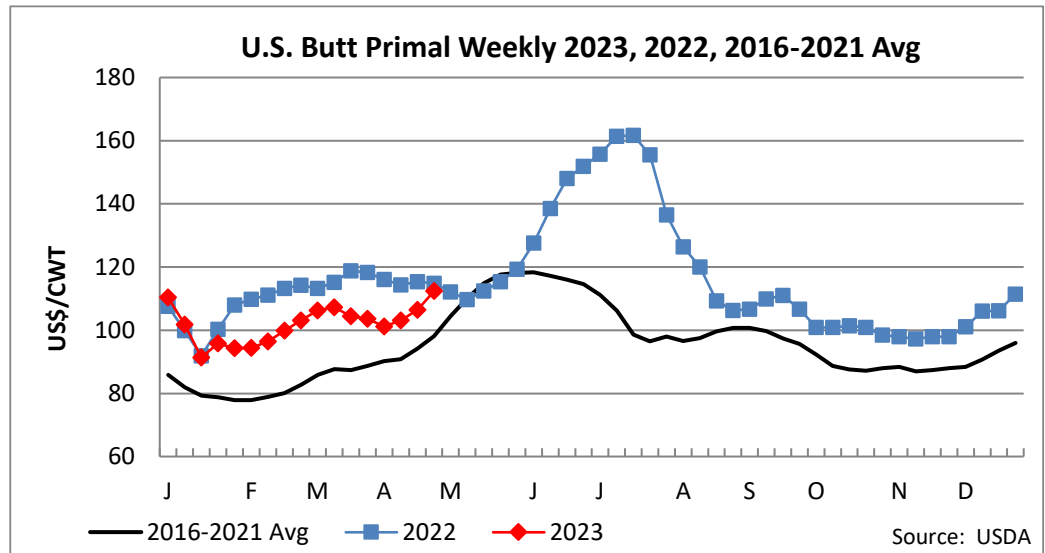
### Retail Items

Retail cuts did all the heavy lifting this past week; led by some impressive gains on the butt primal. Butts are the new beef briskets; they continue to trade at hefty premiums to the other cuts in the cutout with excellent domestic and export demand after them. Loins did not disappoint either; pork retail cuts are benefitting from the run up in beef prices as retailers flocked to them when beef became challenging through Easter 2023. Pork loin prices still seem like a bargain to me when compared to beef loin and rib cuts! Spareribs have also found traction; modest gains at the primal level alongside stout prices out of China for Canadian product should continue to boost US prices on them.





## Pork Cut Profile



## Market Forecasts

### News and Other Analysts' Opinions

- “The Barchart Trading Guide is a Sell Signal with a Soft Signal Strength,” for the May contract ([Barchart.com](https://www.barchart.com), May 1).
- Tyson Foods said it is diverting hogs normally received at its Madison, Nebraska, plant to other Tyson Foods pork facilities as it investigates a recent fire. The company said it does not expect the disruption to hinder meeting customer needs. Tyson said the plant will have limited operations for the remainder of last week while it fully assessed the damage and begin repairs. “We will ensure our full-time, active team members are taken care of as we gradually resume production.” The Madison pork facility harvests approximately 8,000 pigs a day and employs about 1,200 people. ([NationalHogFarmer](https://www.nationalhogfarmer.com), April 25).

[MeatingPlace.com](https://www.meatingplace.com), April 28 says that the Madison plant could be ready to fully reopen as soon as May 8. Repairs to the affected areas currently are under way to resume production, possibly as soon as 15 days after the fire.

- Three US subsidiaries of Canadian pork processor HyLife Ltd. filed for Chapter 11 bankruptcy on April 27. HyLife Foods Windom LLC, Tritex International Inc. and Canwin Farms LLC petitioned for relief in the US Bankruptcy Court for the District of Delaware. The companies' liabilities and assets were both estimated to be in the \$100-500 million range. HyLife recently announced intentions to sell its Windom plant. HyLife president and chief executive officer Grant Lazaruk cited unprecedented challenges like inflation, high grain costs and exchange rates as hurdles to the business. “This is an extremely hard week, and we are unquestionably sad,” he said at the time of the





announcement. “We are doing our best to share the information we currently have. ([meatpoultry.com](http://meatpoultry.com), April 28)

- Ron Plain notes in [NationalHogFarmer.com](http://NationalHogFarmer.com), April 24 that for all of 2022, retail pork prices averaged \$4.897/pound, the third consecutive record year. Retail pork prices in March averaged \$4.756 per pound, down 1.4 cents from the month before, down 8.0 cents from March 2022, and the lowest month since January 2022. It looks like the 2023 average retail pork price will be lower than last year but will still manage to be the second highest year on record, he says.

Plain notes that the farm to wholesale spread (packer margin) has been dismal lately. During March it was only 59.7 cents per retail pound. This was 26.2 cents lower than a year ago and the lowest month since March 2020. The wholesale to retail price spread (retailers' margin) was \$3.213 per retail pound. This was the seventh consecutive month above \$3. There have been only nine months above \$3 in history.

- Dennis Smith writes in the May 1 [NationalHogFarmer.com](http://NationalHogFarmer.com), that his sources are suggesting that dramatic changes may be just around the corner. “I'm hearing (this information is unconfirmed at this moment) that a major contraction in breeding stock will occur this summer. One very large producer has supposedly made the decision to liquidate up to 10% of their herd as soon as possible. I've heard of two 10,000 sow units in Iowa that have recently lost their financing. Regarding the large producer, I'm told that inefficient farms, especially those consistently fighting PRRS, will be totally liquidated.” Smith says that no one has been immune to the sustained losses in the industry other large producers (there's no small producers left) are likely making similar decisions.
- J.S Ferraro released [The Pork Wrap](http://ThePorkWrap), April 27, which stated that packers seem to be planning on a very large Saturday kill this week that could drive the weekly total up to 2.48 million head. If they go ahead with that kill it would be huge for the first week in May, says Rob Murphy. All through the spring he has noted how hog kills have been coming in larger than expected, but he guesses that wasn't going to last forever. Maybe now the supply side of the hog market is looking a bit more bullish than it has recently, says Murphy.
- Smithfield Foods is expected to shut down 37 sow farms in two Missouri counties starting this week in response to hog market conditions. Closing the farms is slated to begin May 1. Smithfield has 132 company-owned farms and 109 contract farms in Missouri in addition to a lease farm and eight feed mills, according to the company website. The company also operates a hog processing plant in Milan, Missouri ([MeatingPlace.com](http://MeatingPlace.com), May 1).
- BMO Capital Markets has revisited its Q1/23 estimates for Maple Leaf Foods (MFI) in the context of weakening pork market conditions. BMO says that after considering the state of both producer and packer margins, they have taken down their Q1/23 EBITDA estimate for the Meat Protein Group from \$114.6 million to \$90.2 million. The estimate for the Plant Protein Group for





an EBITDA loss of \$14.2 million is unchanged. The BMO analysts say they are concerned that the Plant Protein segment will be unable to achieve breakeven by the end of this year. The concern is that given the overall lower than-anticipated growth rates in overall consumer demand for plant-based products and competitive dynamics, the projected reduction in marketing support could reduce sales below sustainable levels.

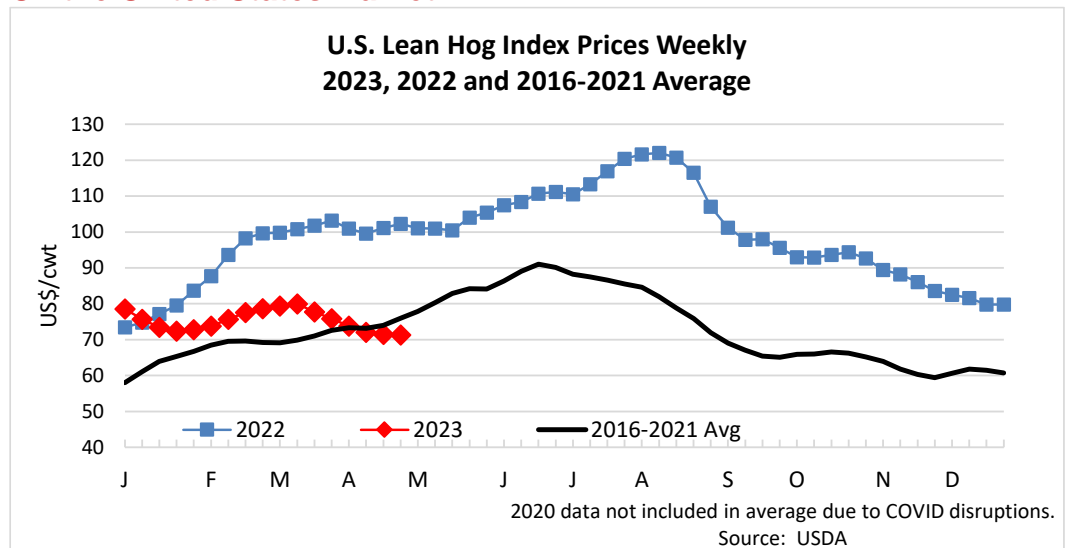
Bruce Ginn writes [Weekly Livestock and Meat Comments](#), April 28 that as supplies seasonally decline into summer, hog prices will rise more rapidly, and producers may be somewhat “relieved”, but packers will still be challenged. With new plants, slaughter capacity exceeds 490 thousand, a level which may not be profitable given recent pork demand. Recall this was the situation in beef and eventually firms reduced capacity...profitability to packers eventually improved. Last week hog FIS declined, and hog prices increased. The seasonal transition is underway, says Ginn.

- Rabobank’s Global Pork Quarterly Q2 2023 notes the following points:
  - The supply of pigs across Europe is expected to remain tight in Q2.
  - China is seeing price weakness due to ASF-induced liquidation and weak demand. Production is expected to tighten later in Q2 and Q3 and demand is anticipated to recover.
  - Japanese pork demand will be weaker in Q2.

Rabobank looks for continued contraction in the U.S. herd. They anticipate that spring/summer pork promotions and eventual moderation in retail prices will help to stabilize the cutout this quarter.

## My Opinions

### On the United States Market

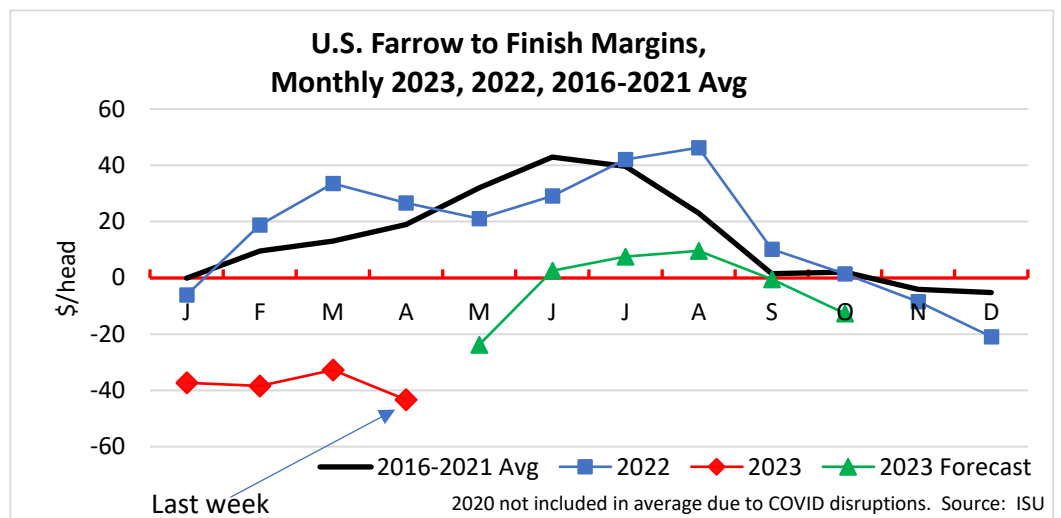


- The CME lean hog index (LHI) continued its counter-seasonal retreat for the sixth week in a row.



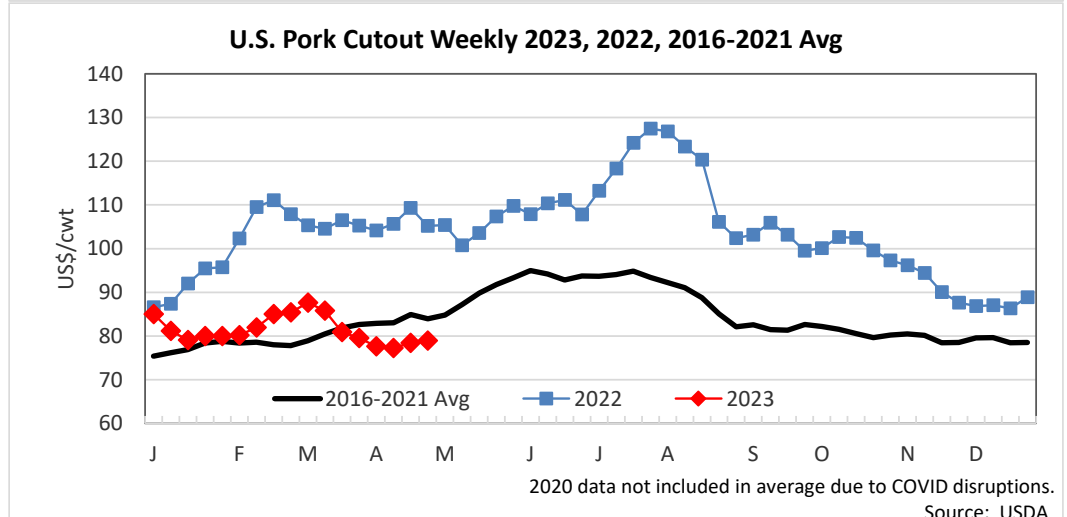
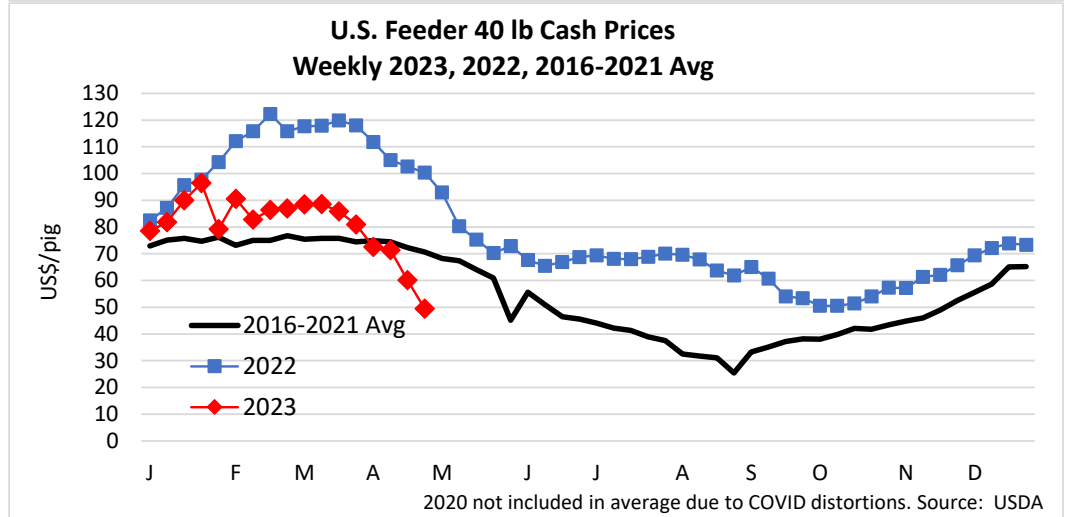
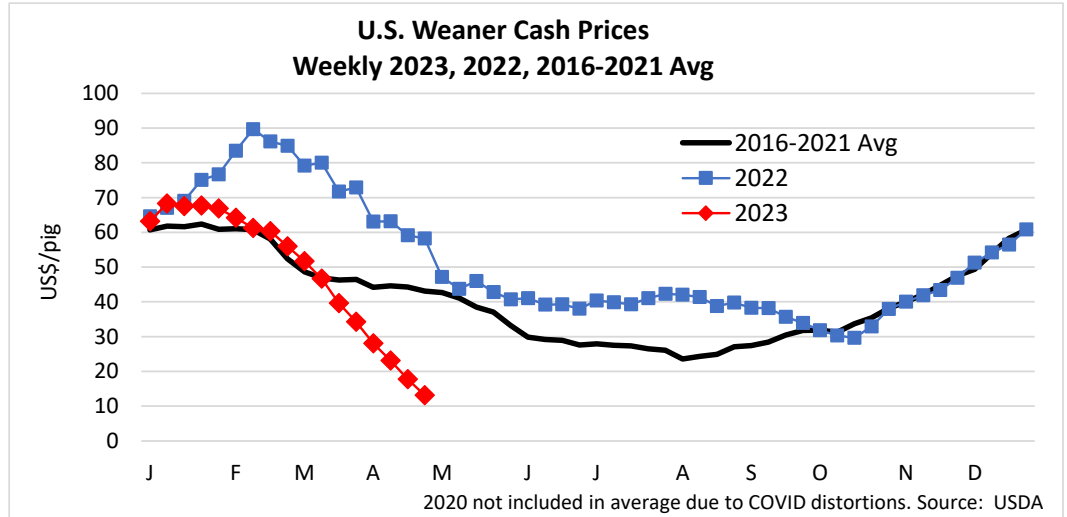


- The weekly average of the thinly traded negotiated hog market tanked to \$67/cwt. That is a decline of \$10 compared to the end of March.
- The price difference between negotiated open market hogs and the total of all producer-sold hogs on the USDA HG201 report is an indication of supply availability. The open trades are now \$10 less than the total of all producer sold hogs. That is far below average for this time of year. For most of 2022 the open traded hogs were much stronger than the total hog value. The fact that the open traded pricing has slid to a below average spread is an indication that sellers are pushing hogs on the market. This is a big indication that packers are not in need of hogs to fill pork sales requirements.
- Based on the Iowa State University (ISU) hog budget for farrow to finish operations, current prices of around \$71/cwt (LHI average last week) would be red by about \$43/head.
- Using Friday's futures and estimated costing based on ISU, U.S. farrow to finish margins should eke into breakeven in June and stay modestly positive during July and August. Futures indicate dipping to breakeven again in September and turning red again in October.



- U.S. weaner cash prices continued to fall out of bed last week despite the firming futures. Year over year weaner prices are nearly 80% less than last year. Ignoring the COVID period in 2020, weaner prices are at the lowest levels since the fall of 2016.
- The U.S. cutout managed to find its footing during the last two weeks. The ham and the belly, which have been a drag, managed to generate some upward movement finally.



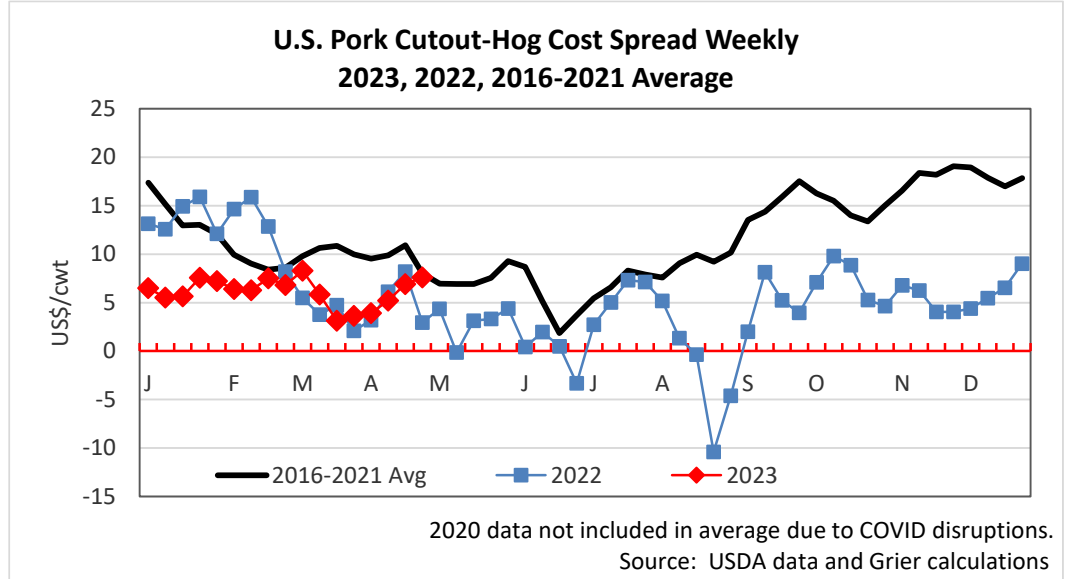


- The spread between the cutout and the hog cost (not including by-product credits and operating costs) managed to move near average levels. The modest improvement in the cutout and the weak hog cost pushed the spread

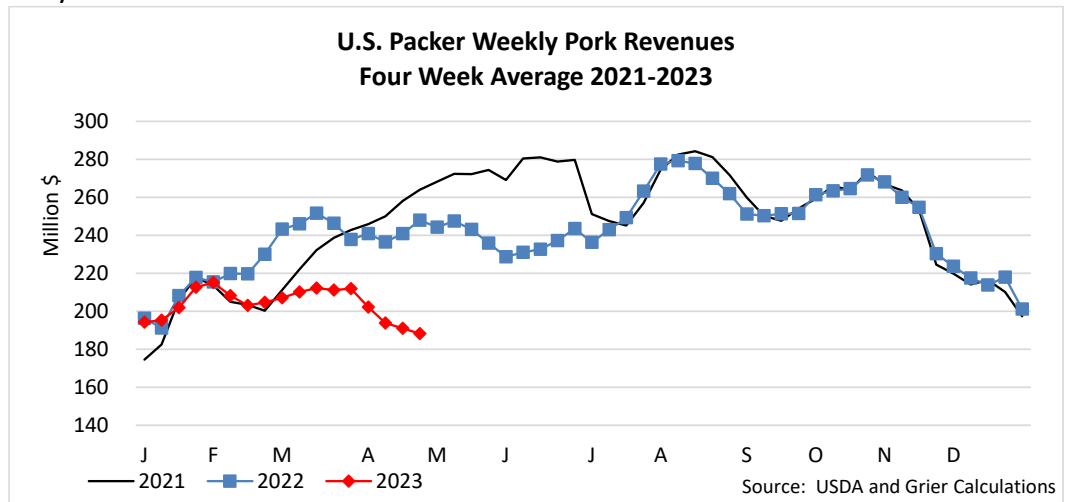




higher during the past month. [HedgersEdge.com](https://www.hedgersedge.com) puts the net packer margin at +\$11/head the last two weeks compared to about \$7 last year.



- Pork demand at the packer level can be inferred and estimated as the total loads sold for the week by packers multiplied by the cutout value. That is also a crude measure of total pork meat revenues at the packer level for a week. Demand and revenue, as defined, is running about 13% less than last year for the first four months.

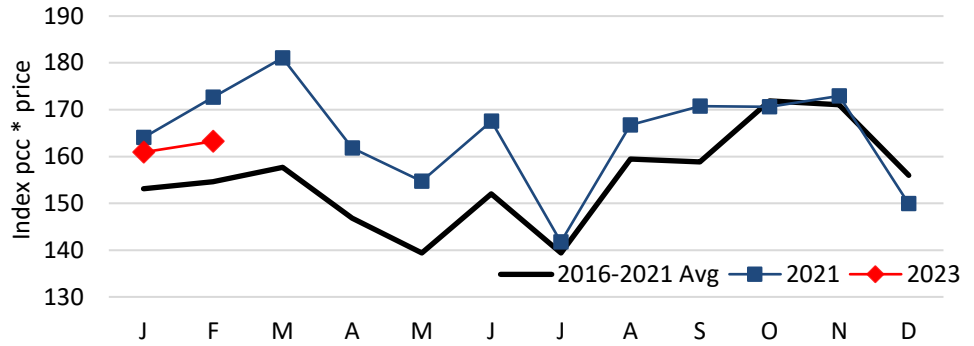


- While the four-week rolling average demand is trending lower, the weekly numbers have been increasing since hitting a low two weeks ago. In other words, demand is showing signs of life.
- Demand at the consumer level can be measured based on deflated retail pork prices and per capita pork availability. Both pork availability and prices can be measured through February (latest data). Based on that measure,



February 2023 demand was about 5% less than the same month last year. Demand in the fourth quarter of 2022 was 10% less than in 2021.

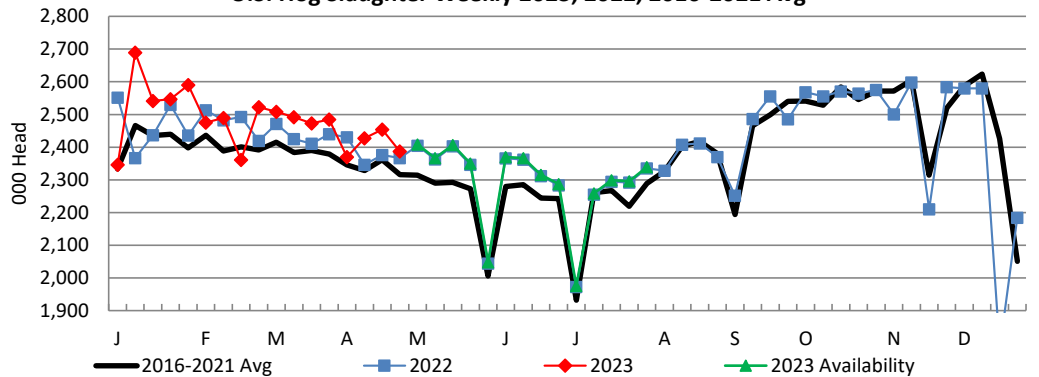
**U.S. Consumer Pork Demand Index  
Monthly 2023, 2022, 2016-2021 Avg**



2020 not included in averages due to COVID disruptions.  
Source: LMIC and Grier Calculations

- Slaughter the last two weeks was estimated at 2.45 and 2.39 million. The average slaughter the last two-weeks was 2% more than the same weeks last year. Since the beginning of March, the date of the last Hogs & Pigs Report, slaughter is running 2% over the prior year. That is close to what the weight breakdown in the March H&P Report indicated.
- The graph below shows actual slaughter as well as estimated slaughter availability through May through July. The estimated availability is based on the March H&P Report pig crops and weight breakdown. For the rest of For May through August, the report indicates a flat year-over-year estimate.

**U.S. Hog Slaughter Weekly 2023, 2022, 2016-2021 Avg**



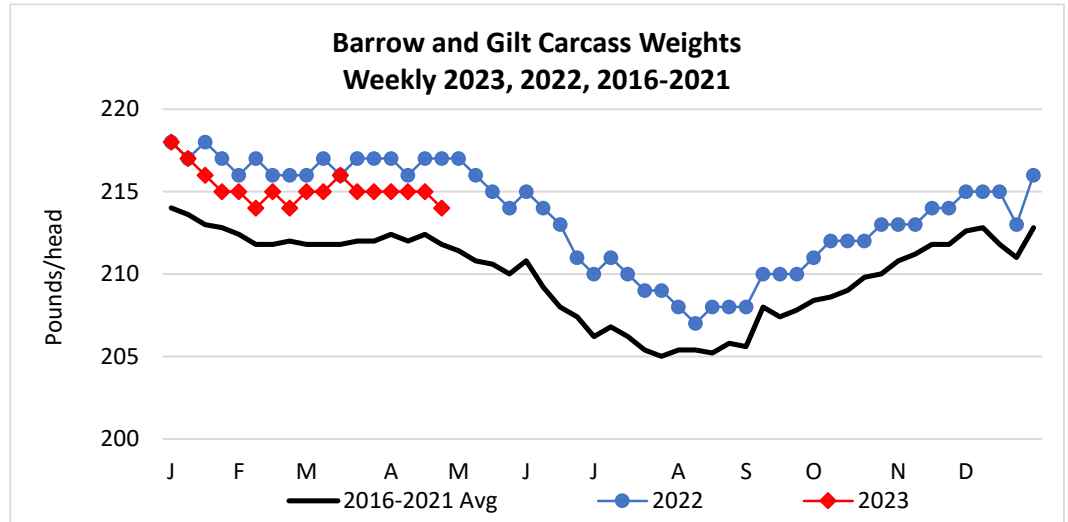
2020 is not included in the average due to COVID disruptions. Source: USDA and Grier Estimations

- Carcass weights for barrows and gilts for the week ended April 15 (latest) were averaging 1.75 pounds under year ago on a four-week rolling average basis as of that week. The last two points on the graph below are estimated barrow and gilt weights based on actual USDA weights for *all hogs*





slaughtered the last two weeks. Weights in the last two weeks are estimated be 2-3 pounds under year ago the last two weeks.



- Based on packer purchases going into this week, packer live inventory looks to be notably less than normal for this time of year. Given the circumstances, however, that is not a factor in pricing for this week.

**On the Canadian Market**

- Prairie weaner producers are probably running in the red by C\$25-30/head on cash traded loads to the U.S. That compares to a 52-week rolling average profit of C\$13/head and a 2022 average of C\$22/head.
- The four-week rolling average of Canadian exports of weaners and feeders as of April 15 (latest) are running 1% over the same weeks a year ago, and 2% more than the same four weeks in the 2016-2021 average.

Four Week Average Weaner/Feeder Exports		
Port of Entry	vs. Last Year	vs. 2016-21 Avg
Michigan	-4%	8%
North Dakota	-3%	-6%
All Ports	1%	2%

week ending April 15. Source USDA APHIS

- The USDA count of market barrows and gilts running through Michigan for the four-week average through April 15 (latest) amounted to about 18,800 per week. That compares to a 2018-2019 average of just 2,200 and 17,700 last year for the same weeks.
- Daily numbers of market hogs going south the latest 30 days ending April 28 averaged 4,900/day. That compares to 3,300 each day for the same 30 days last year. Daily numbers fluctuate erratically but have been averaging roughly 4,900 per day since October 2022.

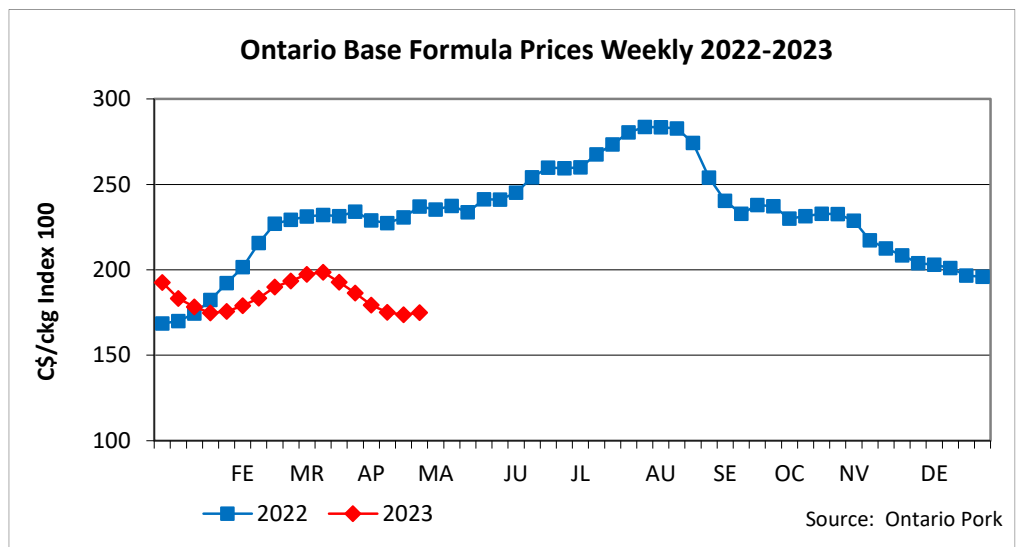


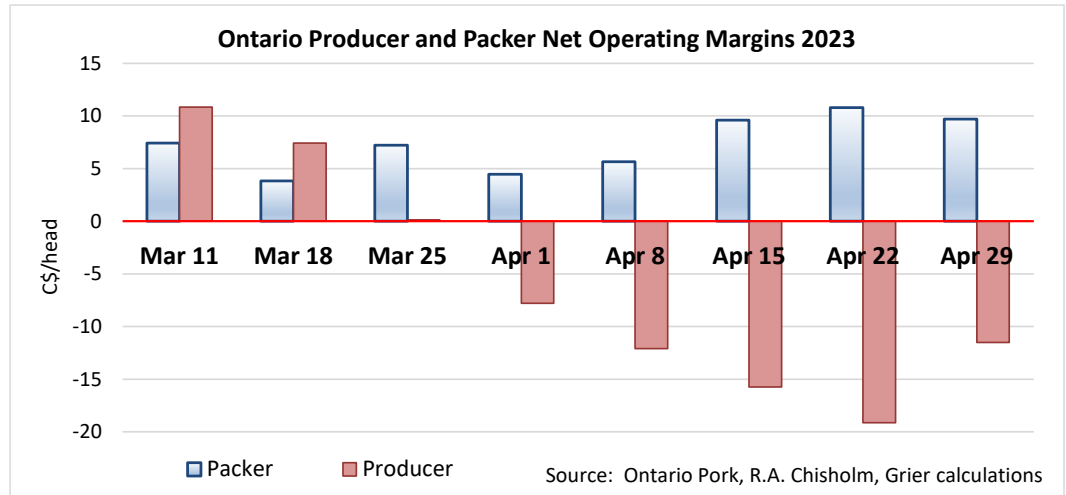


- **Conestoga**, Breslau, has been harvesting about 8,500 per day. The plant seems poised to stay at that level which is up 500 compared to the last couple of years. They did not harvest on Saturday.
- **Sofina**, Burlington is at 8,800/day with no Saturday.
- **Maple Leaf**, Brandon, was about 14,200/day.
- Lethbridge was running about 1,525/day on average last week.
- **HyLife**, Neepawa, is just over 9,000/day although there were some mechanical slowdowns on Friday.
- The four Quebec **Olymel** plants are estimated in the 22,000 per day range, with St-Esprit, the largest, at just under 7,000 and Ange-Gardien at 6,000.
- **Olymel** Red Deer is in the 8,500/day range.
- **CBCO Alliance**, Les Cedres is harvesting about 1,600/day. That is up 100 from recent weeks. They expect to be at 1,700 by June.
- **Aliments Asta**, Saint-Alexandre-de-Kamouraska, is estimated just shy of 3,900 per day for last week and just under 4,000 the week before.
- **Breton**, Riviere-du-Loup, is likely around 2-2,500 per day.
- **Olymel's** press release announcing the Vallee Jonction closure said that as a first step, the evening shift will end in mid-September. The day shift should continue depending on supply and labour availability until the plant ceases operations completely on December 22, 2023.

That labor availability issue is likely to kick in sooner rather than later. The Beauce region where the plant is located has a very low unemployment rate. All the employers in the area are trying to pick up Olymel employees. Singing bounces are common. To make matters worse, the Bimbo company, which acquired Vachon, was taking names and offering boxes of Vachon cakes, in full view of Olymel management. It would be no surprise if the wind down happened sooner for that reason alone.

- **Britco** in Langley and Thunder Creek in Moose Jaw have been running about 1,300 and 1,200 per day respectively.
- During the last four weeks ending April 22 there were about 10-15% fewer hogs moving from Alberta to B.C. compared to last year.





### Quarterly or Monthly Forecast Review

The January 9, 2023, edition of this report was the first to have a forecast for April. That report forecast the April lean hog index average at \$92/cwt. The actual April average was \$72. GRADE ON THE FORECAST: “F.”

### Previous Two-Week Forecast

“The only thing that is going to turn this around is demand. Unfortunately for hog owners, there is no sign of improving demand in the short term. U.S. call: - +0; \$72/cwt.” The LHI averaged \$71.40 the last two weeks. GRADE ON THE FORECAST: “B”

### The Next Two Weeks

There are a couple small fundamental indicators of higher prices: the cutout looks to be showing life, across most primals. The weekly export data is showing some encouraging movement. The big jump in the futures last week likely was spawned for those reasons. U.S. call: +3; \$74-75/cwt.

### Implications/Actions

The closing of the sow farms by Smithfield in Missouri, as well as the HyLife problems in Minnesota are likely to be the start of many closings or downsizing in the United States. Several are already scheduled. The speculation is that there could be enough cuts to result in another plant closure.

Lean Carcass Market Price US\$/cwt			Canadian Market Prices C\$/100kg @C\$1.36	
Period	Futures	Grier	Futures	Grier
			Ontario	Ontario
2 Weeks	80	75	\$199	\$186
June	92	92	\$229	\$229
July	94	95	\$234	\$236
Aug	95	98	\$236	\$244
Q4 2023	82	88	\$204	\$219
Q1 2024	84	82	\$209	\$204



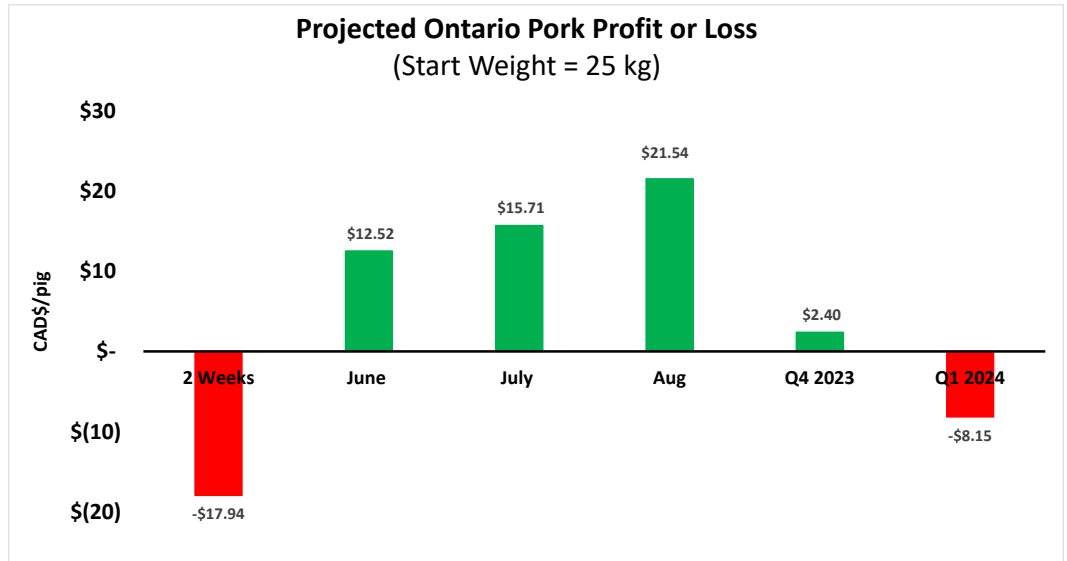


The following net margin modeling projection is generated by Watson.S® Predictions, Trouw Nutrition Canada. Watson.S® is a swine management tool developed and owned by Trouw Nutrition Canada.

Disclaimer: Trouw Nutrition Canada and Kevin Grier present this report as a snapshot of single scenarios in the Canadian swine market using current information at the time of the report. This is an example of the dynamic relationship between hog prices, feed prices and the marketing strategies for pigs, and do not represent a guarantee of return to be earned. Individual scenarios are available upon request.

Summary of Expenses		
Feed (CAD\$/pig)	2 Weeks	\$ 104.69
	June	\$ 104.69
	July	\$ 106.23
	Aug	\$ 106.23
	Q4 2023	\$ 107.78
	Q1 2024	\$ 107.78
	Predicted feeder cost (CAD\$/pig)	2 Weeks
June		\$ 92.13
July		\$ 95.15
Aug		\$ 98.17
Q4 2023		\$ 88.10
Q1 2024		\$ 82.05
Other variable Cost (CAD\$/ pig) OMAFRA		\$ 21.84
Fixed cost (CAD\$/pig) OMAFRA		\$ 15.72
Gross Margin After Feed and Other Variable Costs (CAD\$/pig)		
Gross Margin (CAD\$/pig)	2 Weeks	\$ 57.06
	June	\$ 104.65
	July	\$ 110.86
	Aug	\$ 119.71
	Q4 2023	\$ 90.50
	Q1 2024	\$ 73.90
Projected Profit or Loss		
Profit or Loss (CAD\$/pig)	2 Weeks	-\$ 17.94
	June	\$ 12.52
	July	\$ 15.71
	Aug	\$ 21.54
	Q4 2023	\$ 2.40
	Q1 2024	-\$ 8.15





**If you have any questions, comments, ideas for improvement on content, suggested topics, or if you want to talk about any market factor, please contact me at [kevin@kevingrier.com](mailto:kevin@kevingrier.com), 519-823-9868.**



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